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Preliminary: For Office Use only;  
Not for publication. March 23, 1934.

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U. S. Department of Agriculture

ANALYSIS OF VARIOUS PROPOSALS DIRECTED AT INCREASING PRICES  
TO PRODUCERS UNDER THE AGRICULTURAL ADJUSTMENT ACT

A number of suggestions have been made as to programs for increasing farm prices of milk and its products under the Agricultural Adjustment Act. This preliminary report has been prepared for the purpose of making available a brief review of the various plans to the end that (a) the advantages and disadvantages of each may be set forth (b) further consideration may be given to those plans with greatest possibilities and (c) an expression may be received from those who have reviewed or presented the various plans to which consideration has been given, and to those who wish to present additional plans.

This report is divided into six principal parts, an analysis of (1) programs directed at reducing production of dairy products, (2) programs for removing surpluses, (3) methods of securing funds for the above programs, (4) programs directed at the restriction of the production and/or sale of competing products, (5) programs for increasing the sale of dairy products and (6) miscellaneous proposals.

Gains to Producers from a General Reduction Program.

The circumstances under which a reduction in production would increase returns to producers are as follows:

1. Where total expenditures of consumers on the product are greater after the production restriction.
2. Where consumer expenditures remain the same or decline, and costs decline or decline more rapidly than expenditures.
3. Where a large distributing margin exists which does absorb a portion of the higher producer price without transmitting it entirely to the consumer.

Fluid milk is probably the principal dairy product in which consumer expenditures are increased by a restriction in supply though this may also be true in the case of milk or cream used for ice cream, and possibly to a lesser extent in the case of milk for evaporating, or for cheese, and for certain uses of cream. In a large number of protected fluid milk markets restriction has already taken place. In these sections of the total milk market, it is probable that returns to producers can be increased through the medium of increased consumer expenditures following a reduction program. In the case of butter the best available evidence indicates that consumer expenditures remain about the same in total regardless of production or price. It would appear, in consequence, that such gains as are secured here must arise from a decrease in costs as a result of the reduction in production. The case of cheese is much like that of butter, except for the possibility that distributing margins are capable of absorbing some of the price increase to the producers without raising consumer prices.



## The Outlook for Dairying <sup>1/</sup>

Returns from dairying for several years have been relatively favorable as compared with returns from most other types of farming. During the next year or two, however, the comparative situation seems likely to be much less favorable to dairy producers. Evidences of weakness in the present dairy situation are: a high rate of production, record numbers of cows being milked, low prices of meat-producing livestock that tend to make it relatively more profitable to use feed for dairy production than for meat production, a lowered rate of consumption, and the possibility that pasture will be improved this coming summer.

Under these conditions the present apparent strength in prices of dairy products is due largely to a sharp decline in production, to the price-supporting measures being applied, and to some improvement in general purchasing power. Dairy prices have lagged somewhat behind those of other farm products in previous recovery periods, and in the absence of corrective measures may be expected to lag during the present period of recovery. Feed-grain costs will probably continue relatively high in comparison with prices of dairy products during the next several months.

Although conditions abroad indicate no pressure of foreign supplies on our markets during the present season, they indicate but slight prospect of profitable foreign outlets.

### Farm Production.

Except for minor variations, the number of milk cows on farms has been increasing continuously since 1928, with the number on January 1, 1934, about 3.1 percent above that of a year earlier, and about 17.8 percent above the 1928 total.

Factors contributing to increased cow numbers have been, (1) favorable dairy prices as compared with other farm commodities, (2) the relatively low prices of feed grains until the latter part of 1933, (3) the large supply of labor on farms, and (4) the need for cash income. In addition, the periodic increases in total cattle numbers in the last half-century, which have been characterized by pronounced cycles of growth recurring about every fifteen years, is probably a factor of importance. The upward phase of the present cycle began about 1928. Marketings are now above average, however, and it is probable that cow numbers are near the peak.

The increase in cattle marketings, unfavorable feed prices, and lagging dairy prices in periods of recovery, point to a general reduction in milk production. Offsetting these factors to a considerable degree is the influence of the extensive milking of cows in herds kept normally for beef production and the possibilities of utilizing additional supplies of roughage. Excluding nearly four million beef or dual purpose cows which are included in estimates of milk cows, there are in the country about ten million beef cows. There are, therefore, enough beef cows available to permit the total number of cows milked to be increased several percent in a year if prices are sufficiently high to make the change worth while. It is obvious that the number of milk

<sup>1/</sup> See also the report "The Agricultural Outlook for 1934," Bureau Agricultural Economics.



cows is abnormally high and can hardly be quickly reduced without greatly increasing the number of cows marketed and further depressing their prices. For that reason, the potential producing capacity of the dairy herds will remain high for another year and probably longer, unless offsetting measures are made effective.

Milk production per cow since 1929 has not increased in proportion to the number of cows milked. According to current estimates, production per cow, after increasing steadily from an average of about 14.33 pounds per day in 1929, declined to 13.18 pounds in 1933.

A factor of considerable importance in restricting milk production during the current winter season is the shortage of feed grains and hay. With allowance for carry-over of previous crops, the total feed grain supply is about nine percent below the average of the last five years. With the exception of 1930 when supplies were slightly smaller, the total supply of feed grains is smaller than for any other year since 1901. The number of cattle on farms has increased so that the quantity of feed available per animal is now about six percent less than in 1930. Hay supplies are below average, but above the 1930 and 1931 quantities.

The number of pounds of feed grain (combined in the proportion fed to cows) equivalent to one pound of butterfat is illustrative of the unequal price rises of feed grains and dairy products. Farm prices of butterfat in 1933, and particularly in the last six months of the year, were low in relation to feed grains when compared to recent years, but were about the same as in the pre-war period 1910-1914. The farm price of butterfat on January 15, of 16.1 cents was 2.8 cents, or 15 percent less than that for a year earlier. The index of the farm price of feed grains on January 15 was 132 percent more than a year earlier. The farm price of butterfat in January was equivalent in price to 18.5 pounds of grain compared with 51.1 pounds a year earlier and the 1925-1929 average of 32.9 pounds.

Table 1.- Number of pounds of feed grains equivalent in price to one pound of butterfat

(Based on farm prices).

Year	July to December	January
<u>Average</u>	<u>Pounds</u>	<u>Pounds</u>
1910-1914	22.3	26.1
1925-1929	31.0	32.9
1929	29.6	34.0
1930	28.2	27.2
1931	37.8	25.4
1932	41.5	35.1
1933	22.9	51.1
1934	-----	18.5



### Supplies of Manufactured Products.

Converted into a milk equivalent basis, the production of the four principal manufactured dairy products during 1933 was 2.9 percent above that of 1932, with butter and evaporated milk reaching new highs in the year, and cheese just slightly below its high of 1930. Condensed milk showed a decrease of 22.4 percent from 1932 production. Creamery butter production in December, 1933, was about 7.5 percent below production in December, 1932, while January production was about 13 percent below production in the corresponding month of 1933.

February 1 stocks of creamery butter totalled 76,051,000 pounds or over 427 percent of the February 1, 1933 holdings, and about 244 percent of the 1925-1929 average. A large block of this butter, however, was Government-owned, and for relief purposes only. Further bids will be made on an additional 13 million pounds, so that the net creamery butter stocks as of the first of February were 20.3 million pounds above a year ago.

American cheese stocks as of February 1, 1934 were 65,536,000 pounds, or 22 percent above a year ago, and 34 percent above the 1925-1929 average.

### Consumption of Dairy Products.

Consumption of the principal manufactured dairy products in 1933 decreased relative to consumption in 1932. Consumption of evaporated milk was slightly above that of the previous year. The apparent consumption of creamery butter declined about three percent, American cheese about five percent, and condensed milk about twelve percent. The total of the four products (milk equivalent) decreased about three percent, while production increased about three percent.

Indications of an increasing purchasing power are reflected by increases in factory payrolls in 1933 which were five percent above 1932. December payrolls show an increase of 30 percent over a year ago. Consumer expenditures for butter in December were, however, 11 percent below those of December 1932; consumer expenditures for cheese were eight percent below December, 1932. Similarly, retail expenditures in December for evaporated milk were 24 percent below corresponding month of the previous year.

### Foreign Trade.

Foreign trade in the principal manufactured dairy products is small in comparison with domestic production. Each division of the industry is, however, affected to some extent by foreign competition and demand. For the year ending June 30, 1933, net exports of butter and condensed and evaporated milk constituted less than 1 percent of domestic production. Similarly, net imports of cheese, which is the largest foreign trade item, amounted to 11 percent of domestic cheese production. Total foreign trade (net imports in milk equivalent) of these products aggregated about 1 percent of total production in that year.



An analysis of the butter situation reveals that foreign markets are limited and that they are well supplied with butter and butter substitutes. As a result, foreign prices are unattractive to American producers, and exports are insignificant in comparison to total production. Due to restrictions in foreign markets, it is unlikely that these markets will offer outlets for surpluses of more than a temporary nature.

Any rise in domestic prices accompanying a decline in the value of the dollar need not in itself be expected to attract imports. Since a given domestic price thereby becomes less in terms of foreign currency, the tendency would seem to indicate a restriction on foreign exporters seeking outlets in the United States. The effect upon the tariff rate, however, is to lower the specific rate in terms of foreign currencies, making the tariff protection less effective.

#### Prices.

After three years of decline, farm prices of dairy products reached a low in March, 1933, of 59 percent of the 1910-1914 average. At that time, the farm price of butterfat was 15.1 cents per pound and the farm price of milk sold at wholesale was \$1.10 per 100 pounds. During 1933 butterfat prices increased sufficiently to bring the 1933 average 8.5 percent above that of 1932. The farm price of milk sold at wholesale averaged \$1.29 per 100 pounds in 1933, as compared with \$1.31 in 1932.

Prices of both butterfat and wholesale milk have advanced generally since March, 1933. The February price of butterfat of 21.6 cents per pound was 36.7 percent more than for the corresponding month of 1933, and 51 percent less than the 1925-1929 January average. The price of wholesale milk in January was \$1.48 per 100 pounds, or 27.6 percent above that of a year ago, but 43.9 percent below the 1925-1929 January average. Government purchases of dairy products undoubtedly are influencing prices of dairy products at the present time. While purchases by the Dairy Marketing Corporation terminated on December 15, the Federal Surplus Relief Corporation and the Agricultural Adjustment Administration are continuing to purchase dairy products.

